

# ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Hurt Analyst: Gloria McConnell Bill Number: SB 2001

Related Bills: See Legislative History Telephone: 845-4336 Introduced Date: 02/20/98

Attorney: Doug Bramhall Sponsor:

SUBJECT: Abolish Vehicle License Fee Effective Immediately and FTB's Collection Program

## SUMMARY

This bill would repeal the Revenue and Taxation Code provisions that impose the vehicle license fee. It also would repeal the provisions which transfer the collection responsibility and authority for the vehicle registration fees, transfer fees, license fees, use tax and other specified amounts from the Department of Motor Vehicle (DMV) to the Franchise Tax Board (FTB).

In addition, with repeal of the vehicle license fee (VLF), taxpayers would no longer claim payment of the VLF as a deduction for personal income tax and corporate income and franchise tax purposes.

The analysis of the bill relating to the collection program follows. The analysis of bill relating to the loss of the deduction begins on page 4.

## EFFECTIVE DATE

The bill would be effective immediately upon enactment.

## BOARD POSITION

Pending.

## ANALYSIS OF BILL RELATING TO COLLECTION PROGRAM

## LEGISLATIVE HISTORY

SB 452 (Stats. 93, Ch. 60); AB 65 (Stats. 93, Ch. 878), AB 3032 (Stats. 94, Ch. 1211).

## BACKGROUND

As part of the 1993 Budget Act, FTB was transferred DMV's responsibility and authority to collect delinquencies relating to the registration or transfer of a vehicle (Section 10878 of the Revenue and Taxation Code). FTB has authorized DMV staff to send to the vehicle owner the initial notice of delinquency and the preliminary collection notice. If the delinquency remains unpaid, FTB uses an automated collection process to locate assets of the debtor (wages, bank accounts) and issues withholding orders.

Board Position:

<u>      </u> S	<u>      </u> NA	<u>      </u> NP
<u>      </u> SA	<u>      </u> O	<u>      </u> NAR
<u>      </u> N	<u>      </u> OUA	<u>  X  </u> PENDING

Department Director

Date

Gerald H. Goldberg

6/1/98

For the period July 1, 1997 through March 31, 1998, FTB has collected for the DMV-transferred program approximately \$64 million. DMV does not have automated collection processing, use of administrative collection remedies, or the same level of collection expertise as FTB staff.

#### SPECIFIC FINDINGS

**Effective July 1, 1993**, FTB was transferred DMV's responsibility and authority to collect delinquencies relating to the registration or transfer of a vehicle. When unpaid, these amounts and any interest, penalties or service fees generally constitute a lien on the owner's vehicle (Section 9800 of the Vehicle Code) and are as follows:

- Registration fees imposed under Section 9250.1 of the Vehicle Code;
- Transfer fees imposed under Section 9255 of the Vehicle Code;
- License fees imposed under Section 10752 of the Revenue and Taxation Code;
- Use tax required under Section 4300.5 of the Vehicle Code;
- Penalties for offenses relating to the standing or parking of a vehicle; and
- Court-imposed fines or penalty assessments relating to vehicles.

**This bill** repeals Part 5 (commencing with Section 10701) of Division 2 of the Revenue and Taxation Code, which:

- abolishes the VLFs imposed under Section 10752 of the Revenue and Taxation Code;
- abolishes DMV's authority and responsibility to collect VLFs that may be delinquent before the enactment of this bill; and
- abolishes the transfer from DMV to FTB of all the vehicle collection responsibilities and authority (Section 10878 of the Revenue and Taxation Code).

As a result of the last provision above, all amounts that were imposed or required before the enactment of this bill, but are delinquent thereafter, and the vehicle registration fees and other amounts that would continue to be imposed or required and subject to collection after the enactment of this bill, would not be subject to collection by FTB.

Even though the VLFs would be abolished under this bill, the vehicle owner would owe other amounts that constitute a lien on the owner's vehicle and subject to collection. The collection authority and responsibility, except that relating to VLFs, would generally revert to DMV. The amounts subject to collection by DMV would range from a minimum of \$27 for the registration fees alone to \$42, which includes other governmental fees. Additionally, the owner may owe use taxes assessed by BOE as a result of an audit on vehicles previously registered outside California, parking tickets, or court-ordered vehicle-related amounts, which would continue to be subject to collection by DMV.

### Policy Considerations

If all of FTB's collection responsibilities and authority transferred from DMV were abolished, FTB could not collect any delinquent vehicle registration fees, transfer fees, license fees, use tax or any other amounts that currently may be imposed or required to be paid and delinquent after the enactment of this bill. The authority and responsibility for collection of the transfer fees, license fees, use tax or any other amounts that are currently imposed or required and those that would continue to be imposed or required and may be delinquent after the enactment of this bill would revert to the DMV.

This bill makes no provision for collection of VLFs currently imposed and which may become delinquent after the enactment of this bill. It is unclear whether this is the author's intent. To retain FTB's authority and responsibilities for collecting those VLFs imposed before the enactment of this bill and the continued collection of the other fees and amounts, Section 10878 of the Revenue and Taxation Code could be retained and renumbered as Section 9809 of the Vehicle Code, with the reference to Section 10877 of the Revenue and Taxation Code in the first sentence deleted.

### Implementation Considerations

This bill would become immediately effective, upon enactment. Prior to this effective date, FTB would have issued orders to withhold to banks and earnings withholding orders to employers, contracted for private collection services, or taken other collection actions that would be outstanding as of the effective date. Therefore, FTB would have to terminate these activities prior to the effective date of the bill, when it would lose its collection authority/responsibility. DMV would have to reinstitute the collection activities after the bill is effective, which would disrupt collections. To allow existing collection activities to continue, the bill could be amended to provide that the DMV is the successor to FTB in all outstanding collection actions.

## FISCAL IMPACT

### Departmental Costs

From a technical perspective, ideally this bill would be enacted July 1, 1998, concurrent with the budget year, which would be less complex for staff to effect the budget changes. For fiscal year 1998/99, FTB has projected a budget for the DMV-transferred collection program of \$7.9 million, which includes approximately 106 positions. If it is the author's intent that FTB would no longer be responsible or have the authority to collect vehicle-related delinquencies, FTB staff anticipates some personnel now working the DMV-transferred collection program would assume vacant existing positions in FTB's other programs, and some, if not all of the remainder, would be transferred to DMV consistent with the collection responsibilities that would revert to DMV. The exact disposition, however, of the 106 positions is unknown at this time.

### Collection Estimate

Based on the discussion below, eliminating the DMV-transferred collection program would reduce FTB's collections as follows. FTB staff cannot estimate the collections that may be made by DMV when the authority and responsibility for collection reverts; therefore, this analysis is not reflective of the net reduction.

Estimated Collections Impact of SB 2001			
Assumed Enactment and Operative			
After 6/30/98			
Fiscal Year Impact			
(In Millions)			
1998-9	1999-0	2000-01	2001-02
(\$35)	(\$15)	(\$10)	(\$10)

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

### Collection Estimate Discussion

This bill would eliminate FTB's role in the collections of delinquent VLFs, registration fees and other vehicle-related amounts. It is anticipated that self-compliance regarding the registration fee could improve significantly due to the elimination of the much larger VLF. It is staff's understanding that the ongoing loss of VLFs has been projected by Department of Finance (DOF).

The estimates above reflect VLFs that FTB would have collected on accounts that became delinquent prior to the effective date of this bill (assumed 7/1/98) and registration fees and other amounts that FTB would have collected on an ongoing basis as part of its collection effort.

FTB's vehicle collection program collects approximately \$80 million annually in delinquent registration, license fees and other amounts. According to information from DMV and FTB's collection program, it is estimated that more than 75% of the total amount delinquent is attributable to the VLFs. In addition, it is projected that the number of delinquent vehicle registrations would decline by 50% due to improved voluntary compliance. The average age of delinquent accounts in FTB's inventory is approximately 90 days.

## ANALYSIS OF BILL RELATING TO LOSS OF DEDUCTION

### SPECIFIC FINDINGS

**Currently**, amounts paid for VLFs are deductible in arriving at taxable income for federal and California personal income and corporate tax purposes.

By abolishing the VLFs **under this bill**, taxpayers that otherwise would deduct the amount paid for the fee would have fewer deductions and, therefore, higher taxable income.

### Implementation Consideration

Eliminating this deduction would not significantly affect the department's operations or programs.

### FISCAL IMPACT

#### Departmental Costs

Eliminating the deduction would not significantly impact FTB's departmental costs.

#### Tax Revenue Estimate

Based on the discussion below, tax revenue would increase as follows:

Estimated Tax Revenue Impact of SB 2001			
Assumed Enactment and Operative			
After 6/30/98			
Fiscal Year Impact			
(In Millions)			
1998-9	1999-0	2000-01	2001-02
\$85	\$105	\$110	\$105

#### Revenue Estimate Discussion

The revenue impact from the loss of the state deduction would depend on the number of taxpayers who itemize deductions and would no longer have a deduction for the VLF and the average VLF that otherwise would have been deducted.

Deductions would decrease from abolishing the VLF for both personal income and corporate tax filers. The revenue gain that would result from this loss of deduction was estimated in two parts. The first part, the personal income tax (PIT) portion, was estimated from the FTB's PIT model (\$60 million for the first full year). Note that the PIT portion includes individuals and unincorporated businesses. The impact on unincorporated business was calculated by estimating what portion of the total VLF is paid by businesses. For this step it was assumed that about one third of the total VLF is paid by businesses (this is the rule of thumb used by the Board of Equalization to identify what portion of the sales tax is paid by businesses). It was further assumed that 80% of the business VLF were incurred by corporations. After accounting for loss corporations and apportioning corporations, the Bank and Corporation portion of the increased liability was estimated to amount to about \$40 million in the first full year. Both components of this revenue impact were grown using the DOF projected growth rates for VLFs.